

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries Years Ended September 30, 2012 and 2011 with Report of Independent Auditors

Ernst & Young LLP



Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2012 and 2011

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Report of Independent Auditors

The Board of Directors Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries ("BHHS") as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of BHHS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of BHHS's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BHHS's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries as of September 30, 2012 and 2011, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 1 and 9 to the accompanying financial statements, in 2012 BHHS changed its method of accounting for estimated insurance claims receivable and estimated insurance claims liabilities with the adoption of Accounting Standards Update 2012-24, *Presentation of Insurance claims and Related Insurance Recoveries*.

Ernst + Young LLP

December 21, 2012

Consolidated Balance Sheets

	September 30			
	2012			2011
	(In Thousands)			
Assets	(In Inousunus)			
Current assets:				
Cash and cash equivalents	\$	16,072	\$	37,449
Short term investments		69,590		43,693
Accounts receivable for services to patients, less allowances for				
uncollectible accounts, charity and free care of approximately				
\$19,025 in 2012 and \$18,248 in 2011		42,983		41,819
Professional liabilities insurance recoveries receivable –				
current portion		11,424		10,076
Other current assets		16,703		10,738
Assets limited as to use		1,875		3,616
Total current assets		158,647		147,391
Assets limited as to use		_		6,891
Long-term investments		47,464		43,246
Professional liabilities insurance recoveries receivable –		,		,
non-current		31,106		32,297
Other assets		26,301		18,590
Property, plant and equipment:				
Land, buildings and improvements		126,716		126,665
Equipment		269,265		245,257
1 1		395,981		371,922
Less accumulated depreciation		284,026		265,257
•		111,955		106,665
Construction in progress		17,163		18,530
		129,118		125,195
Total assets	\$	392,636	\$	373,610

	Septe	mber 30
	2012	2011
	(In The	ousands)
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 10,208	\$ 13,308
Accrued expenses	47,324	40,168
Current portion of long-term debt	3,809	3,832
Professional liabilities – current portion	11,424	10,076
Other current liabilities	6,775	3,987
Total current liabilities	79,540	71,371
Long-term debt, net of current portion	47,436	49,757
Accrued pension obligation	67,041	58,208
Professional liabilities	43,247	45,548
Other long-term liabilities	34,640	32,584
Total liabilities	271,904	257,468
Commitments and contingencies		
Net assets:		
Unrestricted	72,028	72,064
Temporarily restricted	28,832	24,997
Permanently restricted	19,872	19,081
Total net assets	120,732	116,142
Total liabilities and net assets	\$ 392,636	\$ 373,610

See accompanying notes.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries Consolidated Statements of Operations and Changes in Net Assets

	Years Ended September 30				
	2012	2011			
	(In Thousands)				
Operating revenue:					
Net patient service revenue	\$ 420,616	\$ 409,615			
Other revenue	19,050	10,881			
Total operating revenue	439,666	420,496			
Operating expenses:					
Salaries and benefits	191,568	187,168			
Supplies and other expenses	189,150	172,988			
Depreciation and amortization	20,233	17,957			
Bad debts	16,623	12,302			
Interest	2,724	3,110			
Total operating expenses	420,298	393,525			
Income from operations	19,368	26,971			
Non-operating gains and losses, net	2,164	(38)			
Excess of revenue over expenses	21,532	26,933			

(Continued on next page.)

Consolidated Statements of Operations and Changes in Net Assets (continued)

		Years Ended September 30			
		2012		2011	
		(In Thousands)			
Unrestricted net assets:					
Excess of revenue over expenses	\$	21,532	\$	26,933	
Net assets released from restrictions used for capital acquisitions		1,641		535	
Transfers to Yale-New Haven Health Services Corporation		_		(2,325)	
Transfers from Yale-New Haven Health Services Corporation		900		900	
Other transfers		(5)		166	
Pension liability adjustment		(24,104)		(14,167)	
(Decrease) increase in unrestricted net assets		(36)		12,042	
Temporarily restricted net assets: Net assets released from restrictions used for operations Net assets released from restrictions used for capital acquisitions Change in unrealized gains and losses on investments Bequests, contributions, and grants Net realized investment gains Other changes in net assets		(4,975) (1,641) 1,932 6,536 1,599 384		(4,651) (535) (202) 5,613 1,267 243	
Increase in temporarily restricted net assets		3,835		1,735	
Permanently restricted net assets:					
Bequests, contributions, and grants		791		1,773	
Increase in permanently restricted net assets		791		1,773	
Increase in net assets		4,590		15,550	
Net assets at beginning of year Net assets at end of year	<u> </u>	116,142 120,732	\$	100,592 116,142	
thei assets at the of year	Þ	140,/34	Þ	110,142	

See accompanying notes.

Consolidated Statements of Cash Flows

	Year Ended September 30		
	2012	2011	
	(In T	housands)	
Cash flows from operating activities			
Increase in net assets	\$ 4,590	\$ 15,550	
Adjustments to reconcile increase in net assets to net cash provided by			
operating activities:	•••	15.055	
Depreciation and amortization	20,233		
Bad debts	16,623		
Change in unrealized gains and losses on investments	(3,538		
Bequests and contributions	(7,327		
Loss on refunding and refinancing of long-term debt	1,799		
Pension liability adjustment	24,104	14,167	
Changes in operating assets and liabilities:		(2.4.0==)	
Accounts receivable, net	(17,787		
Other assets	(16,792		
Accounts payable	(3,100		
Accrued expenses	7,156		
Professional insurance recoverable and liabilities	(1,110	(499)	
Other current liabilities, accrued pension obligation, and other			
long-term liabilities	(10,429		
Net cash provided by operating activities	14,422	15,040	
Cash flows from investing activities			
Net change in investments	(26,577	(4,641)	
Assets limited as to use	8,632		
Acquisitions of property, plant and equipment, net	(22,839	· / /	
Net cash used in investing activities	(40,784		
Cash flows from financing activities			
Proceeds from issuance of Series D bond	40,468	6,607	
Proceeds from issuance of Term Loan	5,500		
Refunding of long-term debt	(47,145		
Cost of issuance of long-term debt	(780)		
Repayments of long-term debt	(385		
Bequests and contributions	7,327		
Net cash provided by financing activities	4,985		
Net decrease in cash and cash equivalents	(21,377	(7,703)	
Cash and cash equivalents at beginning of year	37,449		
Cash and cash equivalents at end of year	\$ 16,072	\$ 37,449	

See accompanying notes.

Notes to Consolidated Financial Statements

September 30, 2012

1. Organization and Significant Accounting Policies

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries ("BHHS") is a Connecticut not-for-profit, nonstock corporation established to promote and carry out charitable, scientific, and educational activities. BHHS is the sole member of the following not-for-profit, nonstock corporations: Bridgeport Hospital (the "Hospital"), Bridgeport Hospital Foundation, Inc. (the "Foundation"), Southern Connecticut Health System Properties, Inc. ("Properties"), and Southern Connecticut Health Services, Inc. (the "Parent").

BHHS currently conducts no significant business activities and has no employees. Yale-New Haven Health Services Corporation ("YNHHSC") is the sole member of BHHS and two similar organizations. Each of these three tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. Under the terms of an agreement with YNHHSC, BHHS continues to operate autonomously with separate boards, management and medical staff; however, YNHHSC approves the strategic plans, operating and capital budgets, and board appointments.

The Hospital, the largest entity among BHHS's subsidiaries, provides health care services to the Fairfield County community. The Foundation solicits contributions for the benefit of BHHS, and all other tax-exempt healthcare organizations associated with BHHS. Properties is a real estate holding company

The accounting policies that affect significant elements of BHHS's consolidated financial statements are summarized below.

Principles of Consolidation

The accompanying consolidated financial statements present BHHS and its subsidiaries. In consolidating the financial statements of the parent company and its subsidiaries, all significant intercompany revenues and expenses and intercompany balance sheet amounts have been eliminated in consolidation.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, including estimated receivables and payables to third-party payors, and professional liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

During fiscal 2012 the Hospital recorded a change in estimate of approximately \$4.1 million related to favorable third-party settlements and during fiscal 2011 recorded a change in estimate of approximately \$5.0 million related to favorable third-party settlements.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by BHHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by BHHS in perpetuity. See Notes 5 and 6 for additional information relative to temporarily and permanently restricted net assets.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value on the date the promise is received. All gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Pledges receivable, included in other current assets and other assets in the accompanying consolidated balance sheets at September 30, 2012 and 2011, are expected to be received as follows (in thousands):

	2012		2011
Due in one year or less Due after one year through five years	\$ 1,761 400	\$	179 34
Total pledges receivable	2,161		213
Less allowance for doubtful pledges	 43		10
Pledges receivable, net	\$ 2,118	\$	203

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less when purchased, which are not classified as assets limited as to use or held in the long-term investment portfolio.

Cash and cash equivalents are maintained with domestic financial institutions with deposits, which exceed federally insured limits. It is BHHS's policy to monitor the financial strength of these institutions.

Accounts Receivable

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of the allowances for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Investments

BHHS has designated all investments reported in the accompanying consolidated balance sheets as trading securities. As such, unrealized gains and losses are included in the excess of revenue over expenses.

Investments in marketable equity securities with readily determinable fair market values and all investment in debt securities (marketable investments) are measured at fair value based on quoted market prices.

BHHS participates in the Yale New Haven Health System Investment Trust (the "Trust"), a unitized Delaware Investment Trust created to pool assets for investment by the Health System non-profit entities. The Trust is comprised of two pools: the Long-Term Investment Pool ("L-TIP") and the Intermediate-Term Investment Pool ("I-TIP"). Governance of the Trust is performed by the Yale New Haven Health System Investment Committee.

Under the terms of the investment management agreement with the Trust, withdrawals of the Hospital's investment in the L-TIP can be made annually by the Hospital on July 1. Amounts withdrawn are subject to a schedule that allows larger withdrawals with longer notice periods. As of September 30, 2011, the Hospital can withdraw 100% of its investment in the L-TIP on July 1, 2012. Withdrawals of the Hospital's investment in the I-TIP in any amount can be made quarterly with 30 days advance notice.

Certain alternative investments (non-traditional, not-readily-marketable assets) are structured such that BHHS holds limited partnership interests or pooled units and are accounted for under the equity method and utilizing Yale University's (the "University") reported net asset value per unit for measurement of the units' fair value for the Yale University investment.

Individual investment holdings within the alternative investments may, in turn, include investments in both non-marketable and market-traded securities. Valuations of those investments and, therefore, BHHS's holdings may be determined by the investment manager or general partner. Fund of funds investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The equity method reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The investments may indirectly expose BHHS to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, the BHHS's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors.

The Trust has an agreement with the University's investment office (the "Investment Management Agreement") which allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the "Pool"). Under the terms of the agreement for the years ended September 30, 2012 and 2011, the Trust transferred \$50.0 million and \$100.0 million, respectively, to the University in exchange for units in the Pool. The Trust's interest in the Pool is reported at fair value based on the net asset value per units held. The Pool invests in domestic equity, foreign equity, absolute return, private equity, real estate, fixed income and cash.

Under the terms of the investment management agreement with the University, withdrawals of the Trust's investment in the Pool can be made annually by the Trust on July 1. For withdrawals of amounts less than \$150.0 million or 75% of the Trust's investment in the Pool, \$100.0 million or 50% of the Trust's investment in the Pool, and \$50.0 million or 25% of the Trust's investment in the Pool, the advance notice period is set to a maximum of 180 days, 90 days, and 30 days, respectively, prior to the University's fiscal year ending June 30. For withdrawals greater than \$150.0 million or more than 75% of the Trust's investment in the Pool, the advance notice period is set to a maximum of 270 days prior to the University's fiscal year end of June 30.

In 2011 the Investment Management Agreement between the Trust and the University was modified to allow the Trust to obtain a cash advance, up to a maximum of \$75 million, on a monthly basis. For these advances, an interest charge of Prime plus two percent (2%) will be paid by the Trust. Repayments on the advances are made by the Trust by way of redemptions of a sufficient number of the Trust's units in the Endowment using the June 30th unit valuation. No advances have been requested or taken by the Trust.

Net realized gains and losses on investments, and interest and dividends are included in excess of revenue over expenses unless the income or loss is restricted by donor or law. The change in unrealized gains and losses on all investments is included in the excess of revenue over expenses unless the income or loss is restricted by the donor.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Assets Limited as to Use

Assets limited as to use include assets held by trustee under bond indenture agreements. Amounts required to meet current liabilities are reported as current assets. These funds primarily consist of equities, corporate obligations, U.S. Government obligations, mutual funds, marketable securities, and money market funds. Changes in unrealized gains and losses are recorded in the excess of revenue over expenses and losses.

Inventories

Inventories, included in prepaid expenses and other current assets, are stated at the lower of cost or market. The BHHS values its inventories using the first-in, first-out method.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of the costs is provided using a method that approximates the interest method over the remaining term of the applicable indebtedness. See Note 7 for additional information relative to debt-related matters.

Benefits and Insurance

The Hospital provides medical, dental, hospitalization and prescription drug benefits to employees for which it is self-insured. Liabilities have been accrued for claims, including claims incurred but not reported ("IBNRs"), which are based on specific experience. At September 30, 2012 and 2011, the estimated liability for self-insured employee medical, prescriptions and other benefit claims and IBNRs aggregated approximately \$1.0 million and \$1.3 million, respectively, and is included in accrued expenses in the accompanying consolidated balance sheets.

The Hospital is effectively self-insured for workers' compensation claims. Estimated amounts are accrued for claims, including IBNRs, which are based on specific experience. At September 30, 2012 and 2011, the estimated liability for self-insured workers' compensation claims and IBNRs aggregated approximately \$5.2 million and \$4.1 million, respectively, discounted at 3.0% in 2012 and 3.5% in 2011, and is included in other long-term liabilities in the accompanying consolidated balance sheets.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Depreciation of property, plant and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

Goodwill

In 2011, the Hospital acquired certain tangible and intangible assets of Cardiac Specialists, P.C. for \$1.6 million. As a result of the transaction, goodwill in the amount of approximately \$0.8 million was recorded and is included in other assets at September 30, 2012 and 2011.

The Hospital is required to perform an annual review of its goodwill for impairment. Based on the Hospital's review at September 30, 2012 and 2011, goodwill was determined not to be impaired.

Excess of Revenue over Expenses

In the accompanying statements of operations and changes in net assets, excess of revenue over expenses is the performance indicator. Peripheral or incidental transactions are included in excess of revenue over expenses. Those gains and losses deemed by management to be closely related to ongoing operations are included in other revenue; other gains and losses are classified as non-operating gains and losses.

Consistent with industry practice, contributions of, or restricted to, property, plant, and equipment, transfers of assets to and from affiliates for other than goods and services, and pension and other post-retirement liability adjustments are excluded from the performance indicator but are included in the changes in net assets.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Income Taxes

BHHS, the Hospital and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. Properties is a tax-exempt organization pursuant to Section 501(c)(2) of the Code and also is not subject to federal and state income taxes.

Asset Retirement Obligation

The Hospital maintains an asset retirement obligation liability related to the estimated future costs to remediate environmental liabilities in certain buildings. The asset and asset retirement obligation liability were approximately \$0.4 million and \$12.8 million, respectively, at September 30, 2012 and approximately \$0.5 million and \$13.3 million, respectively, at September 30, 2011.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2011 balances previously reported in the balance sheets in order to conform with the year ended September 30, 2012 presentation.

Change in Accounting Principle

In August 2010, the Financial Accounting Standards Board ("FASB") issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which provides clarification to companies in the health care industry on the accounting for and presentation of professional and similar contingent liabilities. Under the new guidance, these liabilities should not be presented net of insurance recoveries and an insurance recovery receivable should be recognized on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible accounts. The new guidance became effective for the Hospital as of October 1, 2011. BHHS elected to retrospectively adopt the guidance as of October 1, 2010. The adoption resulted in an increase to current assets and liabilities of approximately \$10.1 million and an increase to long-term assets and liabilities of approximately \$32.3 million as of September 30, 2011. The adoption did not affect the Hospital's financial condition, net results of operations, or cash flows.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

New Accounting Pronouncements

In July 2011, the FASB issued Accounting Standards Update No. 2011-07, "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities" ("ASU 2011-07"). Under ASU 2011-07, provision for bad debts related to patient service revenue will be presented as a deduction from patient service revenue (net of contractual allowances and discounts) on the statement of operations with enhanced footnote disclosure on the policies for recognizing revenue and assessing bad debts. BHHS will adopt the presentation changes to the consolidated statement of operations for periods beginning after December 15, 2011.

In August 2010, the Financial Accounting Standards Board (FASB) issued amended guidance relating to measuring charity care for disclosures. The amended guidance requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. Separate disclosure of the amount of any cash reimbursements received for providing charity care must also be disclosed. The new disclosure requirements became effective for the BHHS on October 1, 2011 and are included in the accompanying financial statements for all periods presented.

2. Net Patient Service Revenue and Accounts Receivable for Services to Patients

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the Connecticut Disproportionate Share Hospital Program, includes premium revenue and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue and Accounts Receivable for Services to Patients (continued)

Third-party payor receivables included in other receivables were \$5.3 million and \$2.4 million at September 30, 2012 and 2011, respectively. Third-party payor receivables included in other long-term assets were \$2.8 million and \$1.9 million at September 30, 2012 and 2011, respectively. Third-party payor liabilities included in other current liabilities were \$6.1 million and \$4.0 million at September 30, 2012 and 2011, respectively. Third-party payor liabilities included in other long-term liabilities were \$14.9 million and \$13.8 million at September 30, 2012 and 2011, respectively.

The Hospital has established estimates based on information presently available, of amounts due to or from Medicare, Medicaid and third-party payors for adjustments to current and prior year payment rates, based on industry-wide and Hospital-specific data. Such amounts are included in the accompanying balance sheets. Additionally, certain payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

Revenue from Medicare and Medicaid programs accounted for approximately 36% and 18%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2012 and 36% and 17% for the year ended September 30, 2011. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 39% and 32%, respectively, for the year ended September 30, 2012 and approximately 37% and 32%, respectively, for the year ended September 30, 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement through 2007 for Medicare and 1994 for Medicaid. Other years remain open for settlement.

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue and Accounts Receivable for Services to Patients (continued)

The significant concentrations of accounts receivable for services to patients include 21% from Medicare, 13% from Medicaid, and 66% from non-governmental payors at September 30, 2012 and 27% from Medicare, 13% from Medicaid, and 60% from non-governmental payors at September 30, 2011.

Net patient service revenue is comprised of the following for the years ended September 30, 2012 and 2011 (in thousands):

	2012	2011
Gross revenue from patients	\$ 1,390,798	\$ 1,300,540
Deductions: Contractual allowances Charity and free care (at charges)	942,001 28,181	861,347 29,578
Net patient service revenue	\$ 420,616	\$ 409,615

3. Uncompensated Care and Community Benefit Expense

BHHS's commitment to community service is evidenced by services provided to the poor and benefits provided to the broader community. Services provided to the poor include services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.

BHHS makes available free care programs for qualifying patients. In accordance with the established policies of BHHS, during the registration, billing and collection process a patient's eligibility for free care funds is determined. For patients who were determined by BHHS to have the ability to pay but did not, the uncollected amounts are bad debt expense. For patients who do not avail themselves of any free care program and whose ability to pay cannot be determined by BHHS, care given but not paid for, is classified as charity care.

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

Together, charity care and bad debt expense represent uncompensated care. The estimated cost of total uncompensated care is approximately \$17.7 million and \$16.5 million for the years ended September 30, 2012 and 2011, respectively. The estimated cost of uncompensated care is based on the ratio of cost to charges, as determined by claims activity. The allocation between bad debt and charity care is determined based on management's analysis on the previous 12 months of hospital data. The estimated cost of charity care is estimated using the ratio of cost to gross charges applied to the gross uncompensated cost associated with providing charity care.

The estimated cost of charity care provided was \$11.2 million and \$11.7 million for the years ended September 30, 2012 and 2011, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital-specific data.

For the years ended September 30, 2012 and 2011, bad debt expense, at charges, was \$16.6 million and \$12.3 million, respectively. The bad debt expense is multiplied by the ratio of cost to charges for purposes of inclusion in the total uncompensated care amount identified above.

The Connecticut Disproportionate Share Hospital Program ("CDSHP") was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. During the years ended September 30, 2012 and 2011, the Hospital received \$20.0 million and \$5.0 million, respectively, in distributions from CDSHP, of which approximately \$12.6 million and \$3.5 million was related to charity care. The Hospital made payments into CDSHP of \$16.9 million and \$4.2 million for the years ended September 30, 2012 and 2011, respectively, for the 1% assessment.

Additionally, BHHS provides benefits for the broader community which includes services provided to other needy populations that may not qualify as poor but need special services and support. Benefits include the cost of health promotion and education of the general community, interns and residents, health screenings, and medical research. The benefits are provided through the community health centers, some of which service non-English speaking residents, disabled children, and various community support groups. BHHS voluntarily assists with the direct funding of several City of Bridgeport programs, including an economic development program and a youth initiative program.

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

In addition to the quantifiable services defined above, BHHS provides additional benefits to the community through its advocacy of community service by employees. BHHS's employees serve numerous organizations through board representation, membership in associations and other related activities. BHHS also solicits the assistance of other healthcare professionals to provide their services at no charge through participation in various community seminars and training programs.

4. Investments and Assets Limited as to Use

The composition of investments, including investments held by the Trust, amounts on deposit with trustee in debt service fund and assets limited as to use is set forth in the following table (in thousands):

,	2012			2011		
Money market funds	\$	7,930	\$	17,389		
Mutual Funds		145		· –		
U.S. equity securities		5,840		2,673		
U.S. equity securities – common collective trusts		819		2,792		
International equity securities (a)		5,304		8,941		
Fixed income:						
U.S. government		23,353		19,171		
U.S. government – common collective trusts		11,502		4,875		
Corporate debt		2,362		10,567		
International government (b)		5,945		2,655		
Commodities		111		85		
Hedge funds:						
Absolute return (c)		5,169		3,032		
Long/short equity (d)		1,732		1,060		
Real estate (e)		1,957		852		
Interest in Yale University endowment pool (f)		46,760		23,354		
Total	\$	118,929	\$	97,446		

⁽a) Investments with external international equity and bond managers that are domiciled in the United States. Investment managers may invest in American or Global Depository Receipts (ADR, GDR) or in direct foreign securities.

⁽b) Investments with external commodities futures manager.

⁽c) Investment with external multi-strategy fund of funds manager investing in publicly traded equity and credit holdings which may be long or short positions.

⁽d) Investment with an external long-short equity fund of funds manager with underlying portfolio investments consisting of publicly traded equity positions.

⁽e) Investments with external direct real estate managers and fund of funds managers. Investment vehicles both closed end REITs and limited partnerships.

⁽f) Yale University Endowment Pool maintains a diversified investment portfolio, through the use of external investment managers operating in a variety of investment vehicles, including separate accounts, limited partnerships and commingled funds. The pool combines a strong orientation to equity investments with a strong allocation to non-traditional asset classes such as an absolute return, private equity, and real assets.

Notes to Consolidated Financial Statements (continued)

4. Investments and Assets Limited as to Use (continued)

BHHS ownership percentage of the Trust was approximately 11.4% and 7.1% as of September 30, 2012 and 2011, respectively. BHHS's prorata portion of the Trust's investments are included in the above table.

BHHS has a 47.6% equity interest in Century Financial Services, Inc. ("Century"). At September 30, 2012 and 2011, the investment is included in other assets in the accompanying consolidated balance sheets. The investment in Century is carried on the equity basis of accounting and is adjusted for BHHS's proportionate share of undistributed earnings or losses. Dividends received are deducted from the carrying value of the investment.

5. Endowment

The Hospital's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Hospital has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and direction of the applicable donor gift instrument at the time of the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment and spending policies of the Hospital.

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

Changes in endowment net assets for the fiscal year ended September 30, 2012 are as follows (in thousands):

	Unre	Temporarily Permanently Unrestricted Restricted Restricted			Total	
Endowment net assets, beginning of year Investment returns:	\$	87	\$	15,274	\$ 19,081	\$ 34,442
Investment income Net appreciation (realized and		8		1,131	_	1,139
unrealized)		9		1,246	_	1,255
Total investment return		17		2,377		2,394
Appropriation of endowment assets for expenditure		_		(104)	_	(104)
Other changes: Contribution bequests		_		83	- 791	874
Endowment net assets, end of year	\$	104	\$	17,630	\$ 19,872	\$ 37,606

Changes in endowment net asset for the fiscal year ended September 30, 2011 are as follows:

	Unres	Temporarily Permanently Unrestricted Restricted Restricted			Total	
Endowment net assets, beginning of year Investment returns:	\$	80	\$	14,695	\$ 17,308	\$ 32,083
Investment income		9		889	_	898
Net appreciation (realized and unrealized)		(2)		(245)	_	(247)
Total investment return		7		644	_	651
Appropriation of endowment assets for expenditure		_		(97)	_	(97)
Other changes:						
Contribution bequests		_		32	1,773	1,805
Endowment net assets, end of year	\$	87	\$	15,274	\$ 19,081	\$ 34,442

From time to time, the fair value of assets associated with permanently restricted endowment funds may fall below the level determined under Connecticut UPMIFA.

Notes to Consolidated Financial Statements (continued)

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets as of September 30 are available for the following purposes:

	2012	2011
	(In The	ousands)
Indigent care	\$ 17,945	\$ 15,538
Capital campaign	_	16
Other health care services	10,887	9,443
	\$ 28,832	\$ 24,997

Permanently restricted net assets of approximately \$19.9 million and \$19.1 million for the years ended September 30, 2012 and 2011, respectively, consists of donor-restricted endowment principal. The income generated from permanently restricted funds is expendable for purposes designated by donors, including the support of various health care services.

7. Debt

A summary of debt at September 30 is as follows:

	2012	2011	
	(In Thousands)		
Tax-exempt revenue bonds:			
Series A (fixed interest rates ranging from 3.50% to 6.625%)	\$ -	\$ 11,390	
Series C (fixed interest rates ranging from 3.75% to 5.375%)	_	35,755	
Series D (fixed interest rates ranging from 2.00% to 5.00%)	36,415	· –	
Term loan (3.22% fixed interest rate)	5,543	6,127	
Term loan (1.66% fixed interest rate)	5,235	_	
Capital lease obligation	168	317	
	47,361	53,589	
Add: premium	3,884	_	
Less: current portion	(3,809)	(3,832)	
	\$ 47,436	\$ 49,757	

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

The Hospital's Series A and C tax-exempt revenue bonds were issued through the State of Connecticut Health and Educational Facilities Authority ("CHEFA") under a Master Trust Indenture. The bonds were due serially or via mandatory sinking fund redemptions through July 1, 2025. The bonds were collateralized by a pledge of the gross receipts of the Hospital and the Foundation (the "Obligated Group") and a first mortgage on substantially all property, plant and equipment of the Hospital. The Master Trust Indenture also placed certain limits on the incurrence of additional borrowings of the Obligated Group and required the Obligated Group to satisfy certain measures of financial performance while the revenue bonds were outstanding. The Series A and C bonds were insured by commercial bond insurers.

In November 2010, the Hospital obtained a \$6.6 million term loan from CHEFA. The proceeds of the loan are to be used for the purchase and installation of energy savings equipment and various renovations and improvements to the Hospital's infrastructure. The loan is to be paid in monthly installments over 10 years at a fixed interest rate of 3.22%.

In May 2012, the Hospital's Series D tax-exempt revenue bonds were issued through CHEFA under a Master Trust Indenture for approximately \$36.4 million, with coupons ranging from 2.0% to 5.0%, and a final maturity of July 2025. The proceeds, including a premium of approximately \$4.1 million, were held in an escrow account and used for the retirement of the outstanding Series A and C revenue bonds and to pay for certain bond issuance costs of approximately \$0.8 million. The bond premium is being amortized using the effective interest method and is included in interest expense in the accompanying consolidated statement of operations and changes in net assets. In connection with the refunding and refinancing, the Hospital recognized a loss in 2012 of approximately \$1.8 million principally related to the write-off of deferred financing costs.

In June 2012, the Hospital obtained a \$5.5 million term loan from CHEFA. The loan is to be paid in monthly installments over 5 years at a fixed rate of 1.66% with the proceeds to be used for medical and cafeteria equipment. The loan is secured by the equipment purchased with the proceeds of the loan.

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

Scheduled principal payments on all debt are as follows (in thousands):

			ipital ease
	 Debt	Obli	gations
2013	\$ 3,736	\$	80
2014	3,949		47
2015	4,078		47
2016	4,167		8
2017	4,035		_
Thereafter	27,228		_
	\$ 47,193	_	182
Less: interest			(14)
Total capital lease obligation		\$	168

Cash paid for interest for the years ended September 30, 2012 and 2011 approximated \$2.7 million and \$3.1 million, respectively.

In connection with the Series D bonds, BHHS is required to maintain certain financial covenants. At September 30, 2012 and 2011 BHHS was in compliance with its financial debt covenants.

Assets recorded under the capital lease obligations totaled \$0.2 million and \$0.3 million as of September 30, 2012 and 2011, respectively. Accumulated depreciation for the capital lease obligations totaled \$0.1 million for September 30, 2012 and 2011, respectively.

8. Retirement Benefit Plans

The Hospital and certain other affiliates of BHHS have a defined benefit pension plan covering substantially all employees. The benefits are based on years of service and employees' average compensation as defined by the plan documents. The Hospital and affiliates of BHHS make contributions in amounts sufficient to meet the required benefits to be paid to plan participants as they become due as required under the Employee Retirement Income Security Act of 1974.

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

On June 30, 2006, the Hospital and certain other affiliates of BHHS froze their defined benefit plan. On October 1, 2006 the Hospital and certain other affiliates of BHHS instituted a defined contribution plan covering substantially all employees. The Hospital matches employee 403(b) contributions on a bi-weekly basis, as defined by the defined contribution plan documents, and provides an annual contribution to the employees' accounts based on each employee's year of service and compensation. The Hospital expensed approximately \$9.6 million and \$10.1 million relating to the defined contribution plan for the years ended September 30, 2012 and 2011, respectively. Amounts due to the defined contribution plan amounted to \$4.8 million and \$5.8 million at September 30, 2012 and 2011, respectively, and are included in accrued expenses.

The following table sets forth the funded status of the Hospital and affiliates of BHHS's plans as of September 30:

	Pension Benefits			
	2012	2011		
	(In The	ousands)		
Change in benefit obligation				
Benefit obligation, beginning of year	\$ (166,112)	\$ (159,195)		
Interest cost	(8,464)	(8,423)		
Actuarial loss	(30,864)	(4,026)		
Benefits paid	5,914	5,532		
Benefit obligation, end of year	\$ (199,526)	\$ (166,112)		
Change in plan assets Fair value of plan assets, beginning of year Actual return on plan assets Employer contribution Benefits paid Fair value of plan assets, end of year	\$ 107,905 14,665 15,829 (5,914) \$ 132,485	\$ 103,733 (2,276) 11,979 (5,532) \$ 107,904		
ran value of plan assets, end of year	\$ 132, 40 3	φ 107,304		
Accrued pension obligation	\$ (67,041)	\$ (58,208)		

The actuarial loss in 2012 and 2011 primarily relates to a decrease in the discount rate used to measure the benefit obligation.

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

Accumulated Benefit Obligation

The projected benefit obligation, accumulated benefit obligations and fair value of plan assets were as follows for September 30:

	2012	2011
	(In The	ousands)
Projected benefit obligation	\$ 199,526	\$ 166,112
Accumulated benefit obligation	199,526	166,112
Fair value of plan assets	132,485	107,904

The following table provides the components of the net periodic benefit cost for the plan for the years ended September 30:

	Pension Benefits 2012 2011				
	(In Thousands)				
Components of net periodic benefit cost					
Interest cost	\$	8,464	\$	8,423	
Expected rate of return on plan assets		(9,269)		(8,761)	
Recognized net actuarial loss		1,365		896	
Net periodic benefit cost	\$	560	\$	558	

Assumptions

Weighted-average assumptions used to determine benefit obligations at September 30 are as follows:

	Pension	Benefits
	2012	2011
Discount rate	4.0%	5.2%

Weighted-average assumptions used to determine net periodic benefit cost for years ended September 30 are as follows:

	Pension Benefits			
	2012	2011		
Discount rate	5.2%	5.4%		
Expected long-term return on plan assets	6.75	6.75		

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

Measurement Date

The measurement date used to determine pension benefits is September 30 in 2012 and 2011.

Plan Assets

The asset allocations of the Hospital's pension plan at September 30 are as follows:

	Target Allocation		entage n Assets
	2013	2012	2011
Asset category:			
Equity securities	25%	22%	14%
Debt securities	55	61	73
Alternative investments	20	17	13
Total	100%	100%	100%

The pension assets carried at fair value as of September 30, 2012 and 2011 are classified in the following tables in one of the three categories described in footnote 15 (in thousands):

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 4,558	\$ -	\$ -	\$ 4,558
U.S. equity securities	27,271	_	_	27,271
International equity securities	_	_	7,471	7,471
Fixed income:				
U.S. government	33,999	4,146	_	38,145
Corporate debt	216	37,047	_	37,263
International government	324	_	_	324
Private equity			17,453	17,453
Total investments as of September 30, 2012	\$ 66,368	\$ 41,193	\$ 24,924	\$ 132,485
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 3,812	\$ -	\$ -	\$ 3,812
U.S. equity securities	14,623	_	_	14,623
International equity securities	_	_	5,312	5,312
Fixed income:				
U.S. government	31,939	7,719	_	39,658
Corporate debt	170	34,429	_	34,599
International government	360	_	_	360
Private equity			9,540	9,540
Total investments as of September 30, 2011	\$ 50,904	\$ 42,148	\$ 14,852	\$ 107,904

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

The composition and presentation of financial assets categorized as Level 3 investments in the tables above for the fiscal year ended September 30, 2012 and 2011 are as follows (in thousands):

			Privat Equit	-	_	national quity		Total
Beginning balance as of October 1, 2011 Realized gains Unrealized gains (losses) Purchases, sales, issuance, settlements, transfers, other Ending balance as of September 30, 2012		\$	9,54 2,93 (1 4,99 17,45	30 13) 96	\$ \$	5,312 - 1,357 802 7,471	\$	14,852 2,930 1,344 5,798 24,924
Ending balance as of September 30, 2012		Ф	17,4,	33	Ф	7,471	Ф	24,924
	Private Equity	-		ational uity		Hedge Funds		Total
Beginning balance as of October 1, 2010 Realized gains	\$ 9,330) -	\$	_ _	\$	5 2,993	\$	12,323
Unrealized gains (losses)	65	5		(688)		(93)		(716)
Purchases, sales, issuance, settlements, transfers, other	145	5		6,000		(2,900)		3,245
Ending balance as of September 30, 2011	\$ 9,540)	\$	5,312	\$	<u> </u>	\$	14,852

The Hospital's investment strategy for its pension assets balances the liquidity needs of the pension plan with the long-term return goals necessary to satisfy future pension obligations. The target asset allocation seeks to capture the equity premium granted by the capital markets over the long-term while ensuring security of principal to meet near term expenses and obligations through the fixed income allocation. The allocations of the investment pool to various sectors of the markets are designed to reduce volatility in the portfolio.

The Hospital's pension portfolio return assumption of 6.75% is based on the targeted weighted-average return of comparative market indices for the asset classes represented in the portfolio and discounted for pension expenses.

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

Cash Flows

Contributions: The Hospital and its affiliates expected contribution to the defined benefit pension plan in fiscal year 2013 is approximately \$6.5 million.

Estimated future benefit payments: The Hospital and its affiliates expect to pay the following benefit payments as appropriate in thousands:

2013	\$ 7,015
2014	7,309
2015	7,551
2016	7,959
2017	8,445
2018 to 2023	51,725

In addition, certain employees participate in a Hospital sponsored nonqualified pension benefit program. Included in other long-term liabilities in the accompanying balance sheets at September 30, 2012 and 2011 is approximately \$0.5 million and \$1.2 million, respectively, related to the obligation for the nonqualified benefits. The Hospital has established a trust with fair values of approximately \$0.5 million and \$1.1 million at September 30, 2012 and 2011, respectively, to fund the obligation. Such amounts are included in other assets in the accompanying consolidated balance sheets.

9. Professional Liability and Self-Insurance Arrangements

Yale-New Haven Hospital ("YNHH") and a number of academic medical centers are shareholders in The Medical Center Insurance Company, Ltd. (the "Captive"). The Captive was formed to insure for professional and comprehensive general liability risks of its shareholders and certain affiliated entities of the shareholders. On October 1, 1997, the Hospital was added to the YNHH program as an additional insured. The Captive and its wholly-owned subsidiary write direct insurance and reinsurance for varying levels of per claim limit exposure. The Captive has reinsurance coverage from outside reinsurers for amounts above the per claim limits. Premiums are based on modified claims made coverage and are actuarially determined based on actual experience of the Hospital, and the Captive. The Hospital pays insurance premiums to YNHHSC.

Notes to Consolidated Financial Statements (continued)

9. Professional Liability and Self-Insurance Arrangements (continued)

The estimate for modified claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$54.7 million and \$55.6 million at September 30, 2012 and 2011, respectively. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$13.9 million and \$15.5 million at September 30, 2012 and 2011, respectively, and is included in professional insurance liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately \$12.1 million and \$13.3 million, respectively, based on a discount rate of 3.0% and 3.5% for the years ended September 30, 2012 and 2011, respectively.

The Hospital has recorded related insurance recoveries receivable of approximately \$42.5 million and \$42.4 million at September 30, 2012 and 2011, respectively, in consideration of the expected insurance recoveries for the total discounted modified claims-made insurance. The current portion of professional liabilities and the related insurance receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

The Hospital's estimates for professional insurance liabilities are based upon complex actuarial calculations which utilize factors such as historical claims experience for the Hospital and related industry factors, trending models, estimates for the payment patterns of future claims and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

10. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance as explained in Note 9 or are deemed immaterial. While the outcome of these lawsuits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the consolidated financial position or results of operations of BHHS.

Notes to Consolidated Financial Statements (continued)

10. Commitments and Contingencies (continued)

BHHS and its subsidiaries have various lease agreements, some of which provide for adjustments to future lease payments.

The Hospital has an irrevocable letter of credit with a bank to provide coverage to the State of Connecticut for workers' compensation claims. There were no amounts outstanding under this letter of credit during fiscal years 2012 and 2011.

The Hospital has obtained a surety bond to provide coverage to the State of Connecticut for unemployment compensation in 2011. There were no amounts outstanding in 2012 or 2011.

The Hospital has various lease agreements. Lease expense for the fiscal years 2012 and 2011 was approximately \$4.3 and \$3.1 million, respectively. Future minimum payments under these leases are as follows:

2013	\$ 2,837
2014	2,590
2015	1,628
2016	1,558
2017	1,013
Thereafter	9,098
	\$ 18,724

Proposed Acquisition

The Hospital entered into an agreement on August 12, 2012 to acquire certain assets and assume certain liabilities of a Connecticut radiology practice for approximately \$16 million. A regulatory review by the Connecticut Office of Health Care Access is currently in progress. Upon completion of the regulatory review the transaction will be completed.

Notes to Consolidated Financial Statements (continued)

11. Functional Expenses

BHHS and its subsidiaries provide general health care services to residents within their geographic location, including pediatric care, cardiac catheterization and outpatient surgery. Net expenses related to providing these services for the years ended September 30 are as follows:

	2012	2011
	(In The	ousands)
Health care services	\$ 327,832	\$ 297,358
General and administrative	92,466	96,167
	\$ 420,298	\$ 393,525

12. Related Party Transactions

BHHS purchased certain services for the year ended September 30 from YNHHSC as follows:

	2012	2011
	(In Th	ousands)
Operating expenses:		
Professional and general liability insurance	\$ 2,182	\$ 5,830
Information systems	15,798	3,466
System business office	7,050	6,357
Other business services	20,147	18,906
	\$ 45,177	\$ 34,559

BHHS funds certain capital assets purchased by YNHHSC. Included in prepaid expenses and other assets were approximately \$18.8 million at September 30, 2012 and approximately \$9.2 million at September 30, 2011.

Included in depreciation and amortization expense for each of the years ended September 30, 2012 and 2011 is approximately \$1.0 million and \$0.3 million, respectively, of costs allocated from YNHHSC for shared capital projects.

Included in supplies and other expenses are amounts paid to YNHHSC for Physician related strategic support of approximately \$13.4 million and \$7.0 million for the years ended September 30, 2012 and 2011, respectively.

Notes to Consolidated Financial Statements (continued)

12. Related Party Transactions (continued)

Accounts payable to related organizations is included in accrued expenses in the accompanying consolidated balance sheets for the year ended September 30 as follows:

		2012		2011
		(In The	usai	ıds)
Accounts receivable:				
Yale-New Haven Hospital	\$	1,501	\$	_
Northeast Medical Group		_		2,780
	\$	1,501	\$	2,780
Accounts payable:				
YNHHSC	\$	15,750	\$	14,732
Yale-New Haven Hospital	-	_	,	362
Northeast Medical Group		2,430		
	\$	18,180	\$	15,094

13. Other Revenue

Other revenue consisted of the following (in thousands):

	1,409 1,436						
	 2012		2011				
Cafeteria and vending Parking income Net assets released from restrictions for operations Electronic health records incentive payment Pediatric ancillary services Other	\$ 1,409 4,975 1,725 5,901 3,247	\$	1,637 1,436 4,651 — 3,157				
	\$ 19,050	\$	10,881				

Notes to Consolidated Financial Statements (continued)

13. Other Revenue (continued)

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act ("HITECH"). The provisions were designed to increase the use of electronic health record ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

BHHS uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when BHHS is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue for Medicaid totaling \$1.7 million for the year ended September 30, 2012, is included in other revenue in the accompanying 2012 consolidated statement of operations. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, BHHS's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

14. Non-Operating Gains and Losses, Net

Non-operating gains and losses consisted of the following (in thousands)

	Y ear Septei	
	 2012	2011
Income from investments and other, net Change in unrealized gains and losses on investments Loss on refunding and refinancing of debt	\$ 2,357 1,606 (1,799)	\$ 642 (680)
Loss on retunding and remaining of deot	\$ 2,164	\$ (38)

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Notes to Consolidated Financial Statements (continued)

15. Fair Values Measurements

In determining fair value, the BHHS utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Hospital also considers nonperformance risk in the overall assessment of fair value.

ASC 820-10, *Fair Value Measurements*, establishes a three tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

- Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.
- Level 2: Observable inputs that are based on data not quoted in active markets, but corroborated by market data.
- Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

Financial assets carried at fair value as of September 30, 2012 and 2011 are classified in the following tables in two of the three categories described above (in thousands):

	1	Level 1	L	evel 2	I	Level 3	Total
Cash and cash equivalents Money market funds Mutual Funds U.S. equity securities International equity securities Fixed income	\$	16,072 7,930 145 5,840 5,304	\$	- - - -	\$	- - - -	\$ 16,072 7,930 145 5,840 5,304
U.S. government Corporate debt International government Interest in Yale University endowment pool Investments at fair value	<u> </u>	23,353 2,362 3,634 - 64,640	\$	2,311 - 2,311	\$	46,760 46,760	23,353 2,362 5,945 46,760 113,711
Common collective trusts Alternative investments Investments not at fair value Total investments as of September 30, 2012							\$ 12,321 8,969 21,290 135,001

Notes to Consolidated Financial Statements (continued)

15. Fair Values Measurements (continued

	 Level 1	Lev	vel 2	Level 3	Total
Cash and cash equivalents	\$ 37,449	\$	- \$	_	\$ 37,449
Money market funds	17,389		_	_	17,389
U.S. equity securities	2,673		-	_	2,673
International equity securities	8,941		_	_	8,941
Fixed income					
U.S. government	19,171		_	_	19,171
Corporate debt	10,567		_	_	10,567
International government	2,655		_	_	2,655
Interest in Yale University endowment pool	_		_	23,354	23,354
Investments at fair value	\$ 98,845	\$	- \$	23,354	122,199
Common collective trusts					7,667
Alternative investments				_	5,029
Investments not at fair value				_	12,696
Total investments as of September 30, 2011				_	\$ 134,895

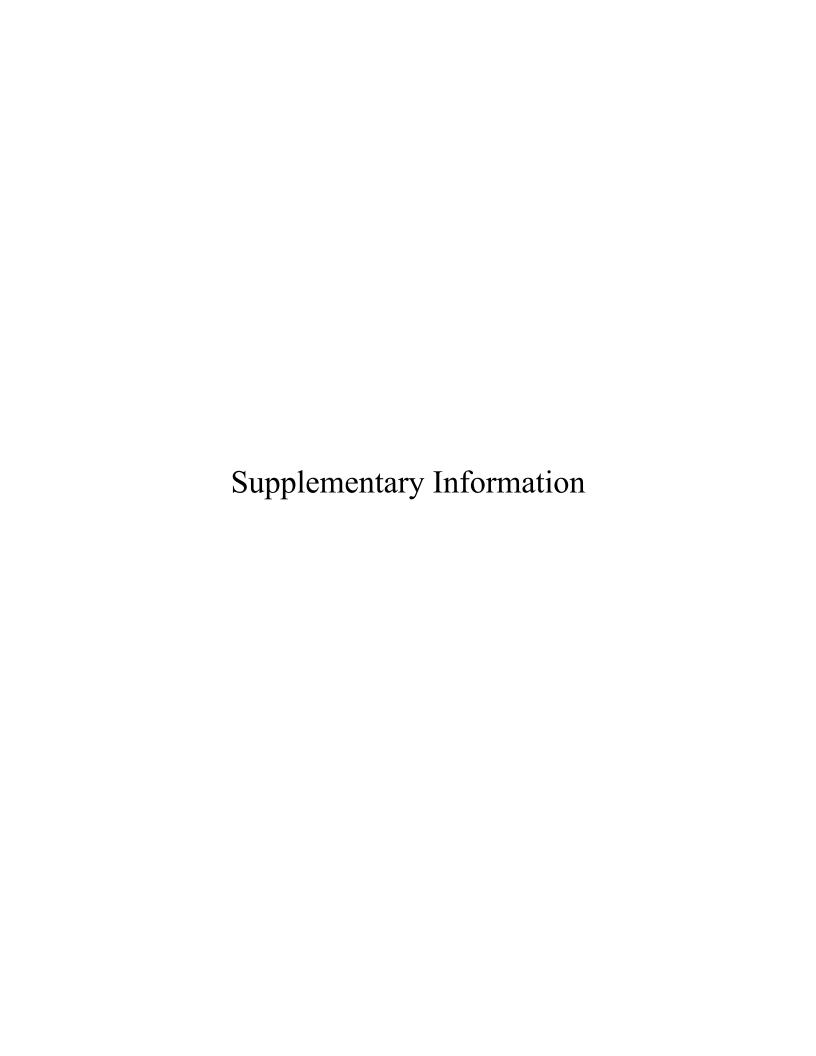
The following is a rollforward of assets classified as level 3 of the valuation hierarchy:

\$ 14,808
1,200
7,346
 23,354
17,682
5,724
\$ 46,760
\$

Fair values of the BHHS's debt are based on current borrowing rates for similar types of debt using undiscounted cash flow analyses. The fair value of the long-term debt at September 30, 2012 and 2011 is \$48.0 million and \$59.2 million, respectively.

16. Subsequent Events

Subsequent events have been evaluated through December 21, 2012, which is the date the financial statements were available to be issued. No events have occurred that require disclosure or adjustment of the financial statements.





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Report of Independent Auditors on Supplementary Information

Board of Directors Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

We have audited the consolidated financial statements of Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated December 21, 2012 which contained an unqualified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statement as a whole.

December 21, 2012

Ernst + Young LLP

Consolidating Balance Sheet

September 30, 2012

	Hospital	For	undation	iminating Entries	(Obligated Group	Parent		Pro	Properties		Eliminations		Total
Assets														
Current assets:														
Cash and cash equivalents	\$ 15,511	\$	413	\$ _	\$	15,924	\$	126	\$	22	\$	_	\$	16,072
Short term investments	41,452		28,138	_		69,590		_		_		_		69,590
Accounts receivable	42,983		_	_		42,983		_		_		_		42,983
Professional liabilities insurance recoveries receivable –														
current portion	11,424		_	_		11,424		_		_		_		11,424
Other current assets	15,781		1,737	(769)		16,749		2,770		9		(2,825)		16,703
Assets limited as to use	1,875		_	_		1,875		_		_		_		1,875
Total current assets	129,026		30,288	(769)		158,545		2,896		31		(2,825)		158,647
Long-term investments	21,778		25,686	_		47,464		_		_		_		47,464
Interest in Bridgeport Hospital Foundation, Inc. Professional liabilities insurance recoveries receivable –	55,179		_	(55,179)		_		-		_		-		-
non-current	31,106		_	_		31,106		_		_		_		31,106
Other assets	24,759		552	_		25,311		990		_		_		26,301
Property, plant and equipment:														
Land, buildings and improvements	125,249		_	_		125,249		_		1,467		_		126,716
Equipment	269,245		20	_		269,265		_		_		_		269,265
	394,494		20	_		394,514		_		1,467		_		395,981
Less accumulated depreciation and amortization	(283,721)		(16)	_		(283,737)		_		(289)		_		(284,026)
	110,773		4	-		110,777		-		1,178		_		111,955
Construction in progress	17,163		_	_		17,163		_		_		_		17,163
Total assets	\$ 389,784	\$	56,530	\$ (55,948)	\$	390,366	\$	3,886	\$	1,209	\$	(2,825)	\$	392,636

Consolidating Balance Sheet (continued)

September 30, 2012

	Hospital Fou		Foundation		liminating Entries	Obligated Group		Parent		t Properties		s Eliminations		Total	
Liabilities and net assets															
Current liabilities:															
Accounts payable	\$	10,208	\$	_	\$	_	\$	10,208	\$	_	\$	_	\$	_	\$ 10,208
Accrued expenses		48,554		968		(769)		48,753		1,311		85		(2,825)	47,324
Current portion of long-term debt		3,809		_		_		3,809		_		_		_	3,809
Professional liabilities – current portion		11,424		_		_		11,424		_		_		_	11,424
Other current liabilities		6,775		_		_		6,775		_		_		_	6,775
Total current liabilities		80,770		968		(769)		80,969		1,311		85		(2,825)	79,540
Long-term debt, net of current portion		47,436		_		_		47,436		_		_		_	47,436
Accrued pension obligation		60,816		-		-		60,816		6,225		-		-	67,041
Professional liabilities		43,247		-		-		43,247		_		-		-	43,247
Other long-term liabilities		34,257		383		_		34,640		_		_		_	34,640
Total liabilities		266,526		1,351		(769)		267,108		7,536		85		(2,825)	271,904
Net assets:															
Unrestricted		74,554		28,152		(28,152)		74,554		(3,650)		1,124		-	72,028
Temporarily restricted		28,832		12,553		(12,553)		28,832		_		-		-	28,832
Permanently restricted		19,872		14,474		(14,474)		19,872		_		_		_	19,872
Total net assets		123,258		55,179		(55,179)		123,258		(3,650)		1,124		_	120,732
Total liabilities and net assets	\$	389,784	\$	56,530	\$	(55,948)	\$	390,366	\$	3,886	\$	1,209	\$	(2,825)	\$ 392,636

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2012

	Hospital Foundation		Eliminating Entries		Obligated Group		Parent		Properties		Eliminations		Total	
Operating revenue:	 •										•			
Net patient service revenue	\$ 420,616	\$	-	\$	_	\$	420,616	\$	_	\$	_	\$	-	\$ 420,616
Other revenue	16,075		2,659		_		18,734		187		158		(29)	19,050
Total operating revenue	 436,691		2,659		-		439,350		187		158		(29)	439,666
Operating expenses:														
Salaries and benefits	191,568		_		_		191,568		_		_		_	191,568
Supplies and other expenses	172,897		2,659		_		175,556		13,405		218		(29)	189,150
Depreciation and amortization	20,175		_		_		20,175		_		58		_	20,233
Bad debts	16,623		_		_		16,623		_		_		_	16,623
Interest	2,724		_		_		2,724		_		_		_	2,724
Total operating expenses	403,987		2,659		-		406,646		13,405		276		(29)	420,298
Income (loss) from operations	32,704		-		-		32,704		(13,218)		(118)		-	19,368
Non-operating gains and losses, net	 2,164		1,838		(1,838)		2,164		_		-		_	2,164
Excess (deficiency) of revenue over expenses	34,868		1,838		(1,838)		34,868		(13,218)		(118)		_	21,532

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2012

		Hospital	Fe	oundation	Eliminating Obligated undation Entries Group Parent		Parent	ent Properties			nations		Total			
Unrestricted net assets:		•						•				•				
Excess (deficiency) of revenue over expenses	\$	34,868	\$	1,838	\$	(1,838)	\$	34,868	\$	(13,218)	\$	(118)	\$	_	\$	21,532
Net assets released from restrictions used for capital acquisitions		1,641		1,119		(1,119)		1,641		-		_		_		1,641
Other transfers		(168)		_		_		(168)		(29)		192		_		(5)
Transfers to/from BHHS - NEMG		(13,319)		_		_		(13,319)		13,319		_		_		_
Transfers from YNHHSC – Epic		900		_		_		900		_		_		_		900
Change in pension obligation		(24,104)		_		_		(24,104)		-		_		_		(24,104)
(Decrease) increase in unrestricted net assets		(182)		2,957		(2,957)		(182)		72		74		_		(36)
Temporarily restricted net assets:																
Net changes in interest in the Foundation:																
Change in unrealized gains and losses on investments		714		_		(714)		_		_		_		_		_
Net assets released from restrictions used for operations		(2,659)		_		2,659		_		_		_		_		_
Transfers to the Hospital		(2,088)		_		2,088		_		_		_		_		_
Bequests, contributions, and grants		6,536		_		(6,536)		_		_		_		_		_
Other changes in net assets		688		_		(688)		_		_		_		_		_
Net realized investment gains and losses		771		_		(771)		_		_		_		_		_
Net assets from restrictions used for operations		(2,316)		(2,659)		` _		(4,975)		_		_		_		(4,975)
Change in unrealized gains and losses on investments		1,218		714		_		1,932		_		_		_		1,932
Net assets released from restrictions used for capital acquisitions		(1,641)		(1,119)		1,119		(1,641)		_		_		_		(1,641)
Bequests, contributions, and grants		_		6,536		_		6,536		_		_		_		6,536
Net realized investment gains and losses		828		771		_		1,599		_		_		_		1,599
Other changes in net assets		(304)		688		_		384		_		_		_		384
Transfers from the Foundation and other transfers		2,088		(2,088)		_		_		_		_				_
Increase (decrease) in temporarily restricted net assets		3,835		2,843		(2,843)		3,835		-		-		_		3,835
Permanently restricted net assets:																
Bequests, contributions, and grants		791		791		(791)		791		_		_		_		791
Increase (decrease) in permanently restricted net assets		4,444		6,591		(6,591)		4,444		72		74		_		4,590
Not accept at haginning of year		118,814		48,588		(48,588)		118,814		(3,722)		1,050				116,142
Net assets at beginning of year	-		¢		¢	(/ /	¢		¢		¢		¢		¢	
Net assets (deficiency) at end of year	Ъ	123,258	Þ	55,179	Þ	(55,179)	\$	123,258	\$	(3,650)	\$	1,124	\$		\$	120,732

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